



State of Utah

School and Institutional
TRUST LANDS ADMINISTRATION

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DIV. OF OIL, GAS & MINING

February 3, 2003

Mr. Michael A. Schott
Vice President
Geokinetics, Inc.
One Riverway, Suite 2100
Houston, Texas 77056

Uintah Special Service District
Attn: Ms. Cheri McCurdy
Executive Office Manager
P.O. Box 144
134 West Main, Suite 201
Vernal, Utah 84078

Alameda Corporation
500 N. Water St., #501N
Corpus Christi, Texas 78471-0002

Alameda Corporation
Attn: Mr. Rod Weaver
P.O. Box 1508
Vernal, Utah 84078

RE: Mineral Lease ML 45256-Oil Shale
Grazing Permit No. 20595
Water Rights Numbers 49-1545 and 49-1546
Township 14 South, Range 22 East, SLB&M, Section 2, Uintah County

Dear Mr. Schott, Ms. McCurdy and Mr. Weaver:

The School and Institutional Trust Lands Administration recently received a request from one of its mineral lessees that raised several issues relating to water rights and two water wells located on Township 14 South, Range 22 East, Salt Lake Base & Meridian, Section 2, in Uintah County, Utah.

The mineral lessee, Geokinetics, Inc., by letter dated November 6, 2002, requested "written confirmation" from the Trust Lands Administration that Geokinetics does not have any obligation with regard to the maintenance or plugging of two water wells located on the above

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leased property. We understand Geokinetics is attempting to complete all reclamation requirements on the property so it can be released from Mineral Lease ML 45256– Oil Shale (the “Mineral Lease”) and have its remaining surety returned. In reviewing this request, the Trust Lands Administration examined its own records and the records of the Utah Division of Water Rights (“DWR”), which revealed the issues addressed here.

Previously, Geokinetics held two water rights in its name that were used on the leased lands. Those rights were designated as Water Rights Numbers 49-350 and 49-370 by DWR before they lapsed in 1981 and 1997, respectively.

Presently, there appear to be two active water rights on the leased lands, which have been designated by DWR as Water Rights Numbers 49-1545 and 49-1546. As stated in its letter, Geokinetics does not seem to have any interest in those water rights. The records of DWR also support this conclusion.

Instead, DWR records show these two water rights were initiated in 1994 by Uintah Special Service District (the “Service District”). The Trust Lands Administration has no record of authorizing the Service District to initiate or develop water rights on these trust lands.

With regard to the water wells located on the property, it is our understanding Geokinetics initially drilled the wells, and then later transferred ownership of the wells to the Trust Lands Administration’s former grazing permittee, S&H Ranches. However, the Trust Lands Administration does not have any records of the well ownership transfer. Additionally, the current grazing permittee on the lands, under Grazing Permit No. 20595, is Alameda Corporation, not S&H Ranches. There is no indication whether Alameda Corporation claims ownership of the water wells.

DWR records indicate that the Service District has permission from S&H Ranches, erroneously called the “landowner”, to utilize the wells. On October 8, 2002, the Service District wrote to the Division of Oil, Gas and Mining concerning the property’s reclamation and requested the access road across the leased property to the well be left open. The Trust Lands Administration has no record of granting the Service District permission to enter upon this property. The letter also mistakenly stated that “Alameda Ranch” was the owner of the property.

Additionally, the letter asserted that “Alameda Ranch” was currently accessing the well. We have not found any DWR records showing current water rights in the name of Alameda Corporation on this property and if there is some agreement between the Service District and Alameda allowing the use of Water Rights Numbers 49-1545 and 49-1546, we are unaware of it.

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Finally, the Service District's letter only refers to Water Right Number 49-1546 and not Water Right Number 49-1545. I do not know whether the omission was inadvertent or whether the Service District is not concerned with Water Right Number 49-1545.

As it appears now, there are a couple matters the Trust Lands Administration needs to have resolved to its satisfaction before it can allow the continued use of the water rights and water wells.

First, the Trust Lands Administration must require the Service District to assign the water rights to the Trust Lands Administration. Presumably, the Service District believed it initiated and utilized the water rights on the land pursuant to the authority of either S&H Ranches or now, Alameda Corporation, under the erroneous assumption that the grazing permittee had landowner status or at least the power to allow such a use.

However, paragraph no. 8 of Grazing Permit No. 20595 clearly provides that any water rights initiated or established on the lands must be in the name of the Trust Lands Administration. That paragraph states in full:

Permittee shall not initiate or establish any water right on the permitted premises except in the name of the State of Utah, School and Institutional Trust Lands Administration. Such right initiated or established shall become an appurtenance to the permitted premises.

The Trust Lands Administration may agree to allow the Service District to continue using the water rights, or some portion thereof, for an agreed period of time. In order to reach an agreement, however, the Trust Lands Administration will need to be informed of which entities are utilizing the water rights and to what extent. Along with any such agreement, the issue of authorizing the Service District access across the lands would need to be resolved. At the present time, the Service District has no such authorization and the grazing permittee has no power to do so under its Grazing Permit.

Second, the Trust Lands Administration needs proof of which entity claims ownership and responsibility for the water wells. Presently, a surety posted by Geokinetics under its Mineral Lease could pay for the plugging of the water well. Geokinetics would like to have this surety returned to it without plugging the well. In that event, the Trust Lands Administration may be assuming the responsibility of paying for eventual plugging of the water wells unless it requires a surety of the current owner. If the current owner does not want to assume this responsibility, the ownership of the water wells should be transferred to the Trust Lands Administration.

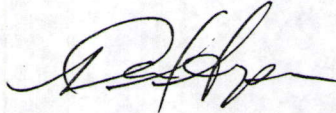
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We would appreciate receiving a response from you soon so we can resolve this matter.
You may call or write to John Blake or me at the above address and telephone number.

Very truly yours,



Dawn J. Soper
Attorney

✓ cc: Paul Baker